

Political Elites and Fiscal Decentralization in Democratic Spain.

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1. Introduction

The principal aim of this paper is to understand the linkage between political elites and fiscal decentralization. With this purpose, the paper attempts to identify the role of the regional political elites on fiscal decentralization, and also on the political and administrative dimensions of decentralization. For illustrative purposes, the case of Spain will be used to show how the regional political elites played a crucial role in the asymmetric and decentralized intergovernmental fiscal relations with the consolidation of democracy.

A close look at the Spanish fiscal federalism provides an evidence of the importance of establishing a “consensual taxation” between taxpayers and rulers as a “better institutional technology” available (Moore, 2003: 7). In effect, Spain’s fiscal regime is a *bona fide* example of how regional political elites in the mist of complex intergovernmental relationships have a substantial influence over the fiscal dimension of decentralization. Considering this “political elite factor” on fiscal decentralization, the analysis of the Spanish case is grounded on the “second-generation” of fiscal federalism, which explores political and institutional factors on decentralization processes.

This paper unfolds as follows: In the first section I will review the main aspects of the growing “second-generation” literature of fiscal federalism, emphasizing the contribution of this literature to political and institutional approaches to fiscal decentralization. The following section will be devoted to the revision of two essential, while vague, terms, which are the object of this paper’s analysis: decentralization and political elites. These terms will be defined in the light of the elite-decentralization linkage suggested in this paper. A typology of decentralization will be proposed, where the regional elite autonomy will be presented as a key component on the decentralization process. The fourth section will analyze the Spanish case of fiscal decentralization giving special emphasis on the influence of regional political elites on this process. The final section concludes.

2. The First and Second-Generation of Fiscal Federalism

The classical literature on fiscal federalism (Gordon, Hamilton, Hayeck, Musgrave, Oates, Samuelson, Tiebout) underlines the importance of efficient distribution and allocation of public goods and services. The “first-generation” focuses almost strictly on the economic aspects of fiscal dynamics. The groundwork from this generation is based on the idea that the budgetary function of the state should be distributed along different jurisdictions in such a manner that the preferences of the citizens could be met more efficiently. The original debate evolved around the difficulty of finding an optimal level of expenditure on public goods¹⁶⁹.

In order for the above-mentioned arguments be included in the analysis of fiscal federalism, it requires a shift of approach. The acceptance of a multidimensional and pluralist approach is a pressing need in the analysis of the decentralization. Garman et al. (2001) studying fiscal decentralization in some Latin American countries finds that:

¹⁶⁹ The main critics to the “first-generation” literature of fiscal federalism rests on these arguments, which the literature seems to overlook: (1) the provision of public goods, one important function of the state, relies on the quality of governments, which in turn, is a governance matter; (2) the distribution and allocation of resources and promotion of welfare often depends not only on the institutional environment but also on the active engagement of citizens in the public life (that goes beyond electoral process); (3) the relationship between different levels of governments is determined to a great extent by historical evolution of the federation and by the existing political system.

the pitfalls of fiscal decentralization are not simply a result of poor mechanism design—as the new literature on fiscal federalism suggests—but rather reside at a deeper level in the strategic bargaining between levels of government, bargaining that is rooted in features of the political system (Garman et al., 2001: 236).

The early literature of fiscal federalism clearly ignores this political-institutional approach. While the “first-generation” analysis departs from an economic perspective, the “second-generation” is not only limited to such perspective and adopts a clumsy approach. The “second generation” focuses on the dynamics of intergovernmental relationship and institutional setting to solve problems, design innovative policies and economic growth. This generation debates the reengineering of the public sector in such a way that its function is not only limited to the provision of public goods, but also on strengthening governance and accountability.

As the “second generation” literature is emerging, it is difficult to identify the patterns and specific characteristics of such literature. Oates (2004), in his comparison between the two generations, considers that the foundation of the “second generation” is based on two main sources: the work of public choice and political economy that studies political processes and behavior of political agents, and from the works on the problems of imperfect information. Considering that the “second generation” emerges from these sources, it is clear that the power relationships, encompassed on political processes, political agents preferences, asymmetries of information and tradeoffs, is a central focus of research on the new literature.

Giving consistency to the sources of the literature, Weingast (1995, 1997) developed the theory of “market-preserving federalism”. According to this theory *de facto* federalist systems must function according to five axioms, which favor a decentralization that increases market efficiency. This happens, as decentralization of power is not at the discretion of the central government, which, in turn, guarantees political durability of policies. Qian and Weingast (1997) used the new theory of the firm and applied it to public sector. They argue that “state predation” and “soft budget constraint” are the main impediments to the creation of an efficient market. However, they suggest that if the central government renounces information and authority to local governments these potential problems are eliminated. Based on this new theory Weingast (2000) makes an important insight indicating that different allocations of power result in different patterns of economic performance.

Enikolopov and Zhuravskaya (2003) tested the hypothesis of whether fiscal decentralization depends on political institutions using data from 95 countries over the last 25 years. They base their theoretical foundation on Riker’s (1964) argument that defends the origins and evolution of federalism rests on the participation of political parties. The research findings indicate that the party system affects fiscal decentralization in the following way: stronger the party system the more effective is political accountability necessary. The amount of empirical research being produced hint that the “second-generation” is moving away from the normative approach to a positive one.

The emerging “second-generation” literature in addition is built upon new approaches to decentralization that also explore the positive frontier. Rodden (2004) proposes the creation of a new theory on decentralization that is based on empirical analysis, a positive theory of decentralization:

fiscal decentralization and federalism do not easily translate into the gains in efficiency and accountability predicted by the first generation of theory. The next generation of empirical studies is embracing the complexity and diversity of decentralization, and considers the possibility that different types of decentralization have different causes and effects (Rodden, 2004: 29).

Whereas the “second-generation” is changing the traditional approach to fiscal federalism with the growth of normative and positive research, and with the increasing research on certain political and institutional aspects, an important factor is ignored: the leadership role of the political elites. This is a recurrent problem, as

with rare exception, there has been a remarkable lack of systematic effort to link political leadership, or political elite behaviour, to policy outputs or outcomes. There has been little more attention to linkages between leadership and the policy process (Welsh, 1984: 49).

The leadership-policy linkages have been considered under Schumpeter's "fiscal sociology" paradigm with the intention to explain the political aspects of tax policies¹⁷⁰. Under Campbell's researches the political elite's choices over taxation received greater attention, but without explaining how this leadership would be felt on the fiscal regime as a whole. In general terms, "fiscal sociology" has failed to develop into a theory as "it provides neither a conceptual toolbox nor a specific set of propositions about the relationship between the fiscal and political developments" (Moore, 2003: 4). Even though "fiscal sociology" can be considered as part of the "second-generation" literature of fiscal federalism, it still needs to draw upon more positive and normative, specially on the leadership-policy linkage.

3. Revisiting some preliminary definitions

The attempt to arrive at a working definition of either political elites or decentralization is not an easy task, as these concepts involve disputed meanings. The main challenge is to operationalize these concepts drawing a coherent connection between them. With this purpose, the working definition of such concepts in this article draws upon the idea of power and authority transfers from the center to the regions, and the interaction between central and local governments is on the heart of the operationalization of both concepts. The underlying idea behind authority and power transfers in liberal democracies is that "the relationship between central and local government is crucial in determining the nature of any local government system" (Chandler, 1993: 195). Within this frame of analysis, it is important to build a connection between decentralization and political elites. Exploring the territorial dimension of intergovernmental relationships will provide this bridge.

The study of the political elites in democratic systems has been largely dominated by the consociational view of political stability. According to Lijphart (1969: 216), "[c]onsociational democracy means government by elite cartel designed to turn a democracy with a fragmented political culture into a stable democracy." Elite cooperation, under such an argument, is the key to stability. The influence of the cooperation among elites on political stability is questionable. Furthermore, underlying the strategies of cooperation among elites there are many structural and institutional factors to be considered —i.e. decentralization. For this very reason, the interplay between regional and national elites is interpreted in connection with decentralization. As decentralization evokes transfer of authority and power to the periphery, the regional political elites are considered important actors in a decentralized polity.

The importance of the regional political elites has been emphasized in numerous researches where some Southern European countries assume special relevance. For example, Putman et. al. (1993) focuses on the changing political culture of the regional elites and identify the creation of new regional institutions and "open partnership" as important means to foster "a tolerant and collaborative pragmatism" among the political elites; Vazquez-Barquero (1990) shows that in Spain the political elites are "ready to cooperate and collaborate" with local entrepreneurs in a context of "incipient autonomy"; Dupoirier (1995) analyzes the creation of regional elites as a result of decentralization in France and suggests that the French first regional elites are the "bearers of regional autonomy"; Leonardi and Garmise (1992) evaluate the connection between economic growth and regional governments in some European Union countries — including Greece, Italy, Portugal and Spain— finding that economic efficiency attained with decentralization implies the involvement of the regional political elites. Indeed, regional political elites are articulated actors who interfere on multiple aspects of a polity's life. For this reason,

Any study of national political outcomes viewed through the lens of territorial politics

¹⁷⁰ The main focus of fiscal sociology is to study taxes and public finance considering "how these things affect and are affected by a wide range of political, economic, cultural, institutional, and historical factors" (Campbell, 1993: 164).

must place particular emphasis on linkages — linkages between levels of government, and linkages between territorially organized actors. How these linkages are organized, and how actors at different levels of the territorial system manipulate them, is crucial to how power is organized and distributed spatially within a state (Gibson, 2004: 9).

The definitions of the political elites and decentralization below address Gibson's main recommendations.

3.1 Political Elites

Scholars studying political elites have referred to this group of individuals in different ways: the “ruling class” (Mosca), the “iron law of oligarchy” (Michels), the “power elites” (Mills); the “ruling elites” (Dahl), and simply “elites” (Pareto). To these terminologies are attached different theories of elites that vary considerably in terms of issues ranging from who these elites are to their scope of influence. While there are conflicting theories about elites, independent of the theory to which one is referring, the meanings attached to the term are usually all-embracing ones. The definition of elites in this research draws upon the main premises of this article and research question. Thus, the concept of political elites will be used to refer to those individuals democratically elected that once in office hold and abide to the existing procedural rules of democracy while engaging in strategies of power relations —cooperation, dispute, consensus, dissensus, solidarity, discord— to influence political outcomes during their mandate. As such, in this definition the sphere of influence of the elites is over political and administrative outcomes.

While political elites are perceived as influential players, there is a problem in identifying the degree, the methods and the scope of their influence. These are critical problems in the attempt to forge a relationship between political elites and changes in political institutions —i.e. breakdown of political systems, transition to and consolidation of democracy, degree of decentralization. The problem is even more pronounced when referring to regional political elites, whose influence over political outcomes is more diffused, asymmetric across the country and organized differently. Furthermore, these elites are little studied (Almeida, 2005: 1). Despite the difficulties in classifying regional political elites, they are an integral and important part of the territorial governance. As Aylmer indicates referring to the European local elites in the Middle Age:

Nicknamed in France *coqs de paroisse* or *coqs de village*, known in parts of Germany as *die Ehrbarkeit*, and in England sometimes as ‘the better sort’, under whatever name they were known and in whatever ways they operated, such groups almost everywhere helped to maintain the fabric of a civilized but essentially hierarchical society (Aylmer, 1996: 60).

Regional elites are often recognized as central actors in the center-periphery relationships. From a developmental perspective, regional elites exercise an important entrepreneurship role in regional development (Christopoulos, 2001). The organization of the local elites and their pattern of relationship with the center affect regional economic development (Schneider et. al., 1972). From a socio-political perspective, regional political elites are more aware of and empathetic to the local needs of the masses than the national elites (Silverman, 1970), while being an important legitimizing actor of the state in traditional societies (Mitra, 1991). From an institutional perspective, institutional reforms are more successful with the support of local elites as they help to draw public support for the reforms (Chibber and Eldersveld, 2000).

At the core of the intricate central-regional power relations lies a fundamental element: elite autonomy. The autonomy of the elites is often analyzed vis-à-vis the state and/or other groups. In this analysis, aspects of internal elite cohesiveness, control of resources, elite cooperation and coupling of elite groups are explored. The degree of elite autonomy will be related with the cooperation among political elites; where elite autonomy denotes independence of authority over the political outcomes and cooperation invokes the sharing out of administrative, political and financial resources.

In terms of intergovernmental relationships, starting from the premise that either national and

regional elites want to be as autonomous from each other as possible, a pertinent question to raise in an institutional setting where there is a great potential for cleavages between national and regional elites is whether these elites can ever cooperate. In normative terms, the desire of autonomy fosters cooperation between elites as members of national and regional elites are aware that through the distribution of resources, the means for autonomy is guaranteed. As Etzioni-Halevy infers on the coexistence between elite autonomy and cooperation:

if the cooperation of elites and sub-elites were necessarily based on pervasive consensus among them, this would in fact preclude elite conflict. Since, however, this is not the case, the elites' and sub-elites' cooperation is not incompatible with conflict and struggles among them, which in turn is a manifestation of elite autonomy (Etzioni-Halevy, 1993: 110).

All things considered, the definition of political elite in this research is constructed around the struggle for autonomy between national and regional elites, as well as around the cooperation strategies that they might follow given some structural factors.

3.2 Decentralization

The emptiness that the decentralization term often conveys can be blamed on the vagueness of its meaning. The task to give a significant meaning to decentralization requires using a definition that alludes to intergovernmental relationships. As such, decentralization is defined in this article as a transfer process of political and administrative authority and power from the central level of government to other smaller levels in a non-hierarchical and informal network where political actors and institutions interact. Understanding decentralization in connection with political elites is important mainly because one can identify the locus where such actors operate. With this purpose, the term “networked polity” will be particularly useful to understand the decentralized/centralized setting in which such actors operate. Ansell (2000) defines the “networked polity” as:

a structure of governance in which both state and societal organizations is vertically and horizontally disaggregates (as in pluralism) but linked together by cooperative exchange (as in corporatism). Organizational structures in the networked polity are organic rather than mechanistic, which means that both knowledge and initiative are decentralized and widely distributed (Ansell, 2000: 311).

The main characteristic of the networked polity is the non-hierarchical organization of relationships between the distinct actors of the network, in which the established relationship among the actors are multilateral and multidirectional. Translating these considerations of a networked polity to public administration arrangements, two pressing questions emerge: can the public administration be considered a network? And, if so, what is a decentralized and/or centralized network? As far as the first question is concerned, public administrations can be considered a network as long as the public administrations are considered organizational structures, which is precisely one of the main elements of a network. Public administrations can be interpreted as component of what Ansell (2000: 303) defines as a modern polity, which is “functionally and territorially disaggregated, but nevertheless linked together and linked to society through a web of inter-organizational and intergovernmental relationships —the “networked polity.” Moreover, public administrations provide an organizational structure for collaborative interactions between actors, which encompasses the informal dimensions of networks.

It is crucial to conceptualize the informality of administrative networks because of the different dynamics that it creates. In effect, “administrative structures can be conceived of in formal terms, for heuristic purposes, but it clear that they are always —albeit in varying degrees— imbued with informal networks that display their own dynamics” (Hutchcroft, 2001: 27). The informality of the network implies a rearrangement of the hierarchical organization of authority as new channels of intermediation are created and others are ignores. In this regard, it is important to mention that the non-hierarchical nature of the network does not mean that the function of each level of government is altered even if actors from each

level of government are engaged in informal connections through informal networks.

Another aspect on the decentralization that deserves some thought is the distinction between administrative and political decentralization. Within this frame of analysis, Hutchcroft (2001) built on the often ignored difference between administrative and political decentralization and analyzed decentralization strategies that emerge in the interplay between both realms. In the administrative realm, the autonomy of institutions and the functions of such institutions are the main elements of decentralization. In the political realm, is the political structure of the system in place (democratic and authoritarian) and several political factors at the national and local levels (political party organization, the system of government, the electoral system, etc). Grounded on this assessment, Hutchcroft designed decentralization matrix organized along two different continues: the administrative decentralization-centralization continuum, and the political decentralization-centralization continuum. The main utility of interpreting these two dimensions separately but inter-connectedly is that aspects of strength of local political elites over the state institutions can be identified.

3.3 A Decentralization Typology

What follows is an intent to forge a more coherent elite-decentralization linkage through the development of a decentralization typology. This typology is important to see how the administrative and the political decentralization affect fiscal decentralization. Moreover, it is important to see how the political elites fair in this process. The classification of decentralization processes based on two variables —regional elite autonomy and central institutional autonomy— are useful to explain how the Spanish decentralization was unleashed while imagining other possible decentralization scenarios.

The interplay between elite autonomy and institutional autonomy is considered an important factor that strikes the balance between political and administrative decentralizations. In the construction of this typology, elite autonomy is perceived as the ability of actors to influence independently and substantially political and administrative outcomes; their strategies for obtaining autonomy depend largely on the cooperation with other actors along the intergovernmental networks. As far as institutional autonomy is concerned, it is interpreted in this article as the ability of administrative institutions to engage in "authoritative actions" to formulate and implement public policies¹⁷¹. A central issue on this elite-institutional autonomy interplay rests on the idea that decentralization guarantees the balance between these autonomies.

Hutchcroft's (2000) approach to decentralization helps to give a meaning to the administrative-political dimensions together with the elite-institutional autonomy. Hutchcroft's decentralization continua are useful to comprehend the level of administrative and political autonomy of state institutions vis-à-vis local political elites (See Figure I below). This typology considers two preferences: whether to centralize or decentralize. Along the administrative continuum, the more or less decentralization options are the reflection of institutional autonomy, which is measured on the basis of strength of administrative control from the national institutions over local ones. On the other hand, along the political continuum, the options either to centralize or decentralize are influenced by the regional elite's autonomy. Four quadrants emerge by combining both continua and mingling the above mentioned conditions, each representing a different scenario.

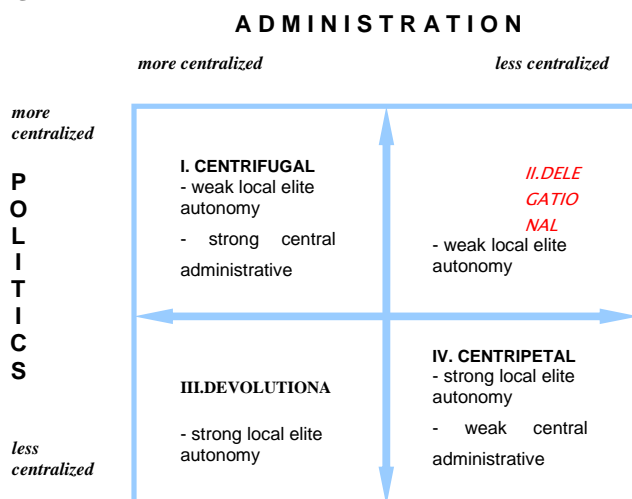
Considering the four available decentralization scenarios, Spain fits into the *centrifugal decentralization* —where the local political elites have significant autonomy vis-à-vis national political elites and central administrations have little degree of autonomy vis-à-vis local ones¹⁷². Distinctively from

¹⁷¹ Authoritative action is a concept borrowed from Eric Nordlinger (1981: 203) who conceives state autonomy as the ability in "translating its own preferences into authoritative actions, and markedly autonomous in doing so even when they diverge from those held by the politically weightiest groups in civil society."

¹⁷² In the case of Spain, the question of whether or not the central government enjoys significant institutional autonomy vis-à-vis local institutions, is debatable considering the asymmetric development of

the other two forms of decentralization —the *delegational* and *devolutional decentralizations*, where only one of the both dimensions is decentralized— the centrifugal and centripetal decentralizations illustrate that the balance between elite autonomy and institutional autonomy is met by either centralization or decentralization in both continua.

Figure I:



In the case of Spain, the analysis about the institutional autonomy and regional elite autonomy varies greatly by Autonomous Community. A distinguished feature about the Spanish case is the intermediation of intergovernmental relations, which is characterized by a high level of institutionalization. With consolidation of democracy, the creation of legitimate intermediate institutions —the autonomous parliaments— had a pivotal function in increasing the representativeness of political elites (Genieys, 2003: 240). Depending on the Autonomous Community, the regional elites show different attitudes in relation to the existing administrative arrangements¹⁷³, indicating that there is room for considerable elite autonomy if desirable. As far as the authoritative action of the central government is concerned, it has been decreasing as the “regulatory monopoly” of the central directives (*normativas*) was lost with the legislative authority of the Autonomous Communities (Bañón y Tamoyo, 1998: 121). Considering these observations, as a result of the high degree of decentralization on the administrative and political dimensions, a high degree of fiscal decentralization is observed, as it will be shown in the next section.

All arguments considered, the typology presented here, though a simplified classification of the Spanish decentralization, depicts the general aspects of the interplay between elite and administrative autonomy in this process.

4. Asymmetric Fiscal Decentralization in Spain

In the heart of the fiscal decentralization debate rests a critical element: intergovernmental distributional conflicts. In Spain, as Montero (2001) points out, this process has been influenced by two factors: (1) lack of macroeconomic crisis, which gives greater leverage power to the central state, was absent in Spain, and open room for subnational governments to build alliances with labor unions and associations; and (2) coordination strategies commonly pursued by the ACs in the legal front gaining

local institutions across the Spanish Autonomous Communities. Certainly, the central government is institutionally more autonomous vis-à-vis certain Communities, but the fact that it is not so vis-à-vis all communities, indicates the central institutional autonomy is limited.

¹⁷³ To these attitudes, also called *repetuair* of legitimation, the legitimation of the elites are analysed in terms of their voice, loyalty and exit strategies (Genieys 2003: 261).

favorable decisions from the Constitutional Court over decentralization matters. The weight that the ACs had in this process is worth calling attention, as Montero (2001) defends that “Despite a highly centralized party system in Spain, the regions were able to engineer a historic decentralization of policy authorities and resources during the 1980s and 1990s by pursuing coordinated strategies” (Montero, 2001: 46).

A key element in determining cooperation in federal arrangements is the nature of the relationship between the central state and subnational units. Preferential treatment given by the central state to certain subnational units in detriment to others leads to asymmetrical relations. Indeed, favoritism and asymmetric relationships go hand in hand. In Spain a differentiated treatment to certain ACs, often based on historical rights, has created a situation in which the intergovernmental relations are dominated by regional competition (Börzel, 2000). To this complexity of competitive relationships that contain elements of asymmetry, heterogeneity, and plurality, Moreno (1999) called “multiple ethnoterritorial concurrence”. In this system ill-equipped with institutional means for coordination, there is a reliance on highly political negotiations in any policy area, being not different for fiscal issues. Under this scenario of favoritism and lack of formal institutionalized relationship between the central state and the ACs, bilateral political negotiations become a standard procedure in the Spanish fiscal federalist model.

The Spanish fiscal federalism, as a result, entered a phase of a continuous work-in-progress that was vulnerable to complex political negotiations. Since the approval of the Spanish Constitution in 1978, the constitutional articles referring to territorial fiscal relations had to be complemented by supplementary laws, and often reinterpretations of the law were subject to the Constitutional Court (*Tribunal Constitucional*) decisions. Moreover, the fiscal model in Spain has undergone two reforms, 1987 and 2001. Unlike most of advanced economies which have experienced a fiscal reform process in the 1980s to increase efficiency (Gago and Alvarez, 1995), Spain has been engaged in the 1980s and the 1990s in a reform process that, in addition to the same motivations of the advanced countries, attempted concurrently to reshape its fiscal federalist model. One of the main reasons for the constant search for a stable model of fiscal federalism is found on the asymmetric relations between the central state and the ACs, and the ACs among themselves.

There are some distinguished features of the Spanish political arrangements that can be identified as contributing to the asymmetric fiscal federalism. They are the following:

1. *lack of free association of subnational units*: the federal model in Spain was introduced in such a manner that the devolution of power took place from the center to the other subnational units. In fact the subnational units have not been considered constitutive units of the national territory. It is noteworthy that historically federal arrangements emerged out of the free will of association from small units delegating power to the center, and not the opposite as it is the case of Spain (Blanco Valdés, 2002);
2. *lack of separation of powers*: there is a great degree of juxtaposition in terms of legislation from the ACs and the central government, which require judicial intervention in the system, leading to uncertainty of the legislative power of the different tiers of government;
3. *weak representation of ACs in the central government*: the subnational governments are not regionally represented in the Parliament. The lower house, the *cortes*, is voted by district which is a lower tier of government. The Senate which is often a forum based on territorial representation is not meant to Spain (Requejo, 1999).
4. *low institutionalization of budget policy making*: there is a dissipation of authority concerning budgetary decisions within the government. There is no clear mandate of which institution should rest the budget decision making process (Gunther, 1996).

The above mentioned structural and procedural features particular to the Spanish federal arrangements gave rise to certain practices that has led to asymmetries in the fiscal relations in Spain. Such practices are encompassed in the following concepts:

1. *Bilateralism*: Practice of negotiation to reach agreements based on bilateral relations as an alternative to multilateral negotiations, which strengthens the bargaining power of the central state vis-à-vis de ACs;
2. *Skepticism*: The interpretations given to the decisions and initiatives take at the central state level which is often seen with mistrust, leading to a legitimacy problem. As a consequence some laws are discussed in practice in two forums, the Parliament and the Courts, in order to decide on the applicability of the law (López Guerra, 1998);
3. *Regionalism*: Political practice which creates a centrifugal force geared towards the nationalist sentiments of the distinct subnational units that nurtures, in turn, ethnic cleavages;
4. *Favoritism*: Preferential treatment given to certain ACs in detriment to others, making policies applicability and implementation to the discretion of the central state, which uses this informal discretion power to favor certain regions according to the political needs of the central government.

Table I:

political arrangements practices	consequences	asymmetric
<ul style="list-style-type: none"> • lack of free association of subnational units • lack of separation of powers 	<ul style="list-style-type: none"> • controlled devolution of power • low legitimacy of decision-making process 	<ul style="list-style-type: none"> • bilateralism • skepticism
<ul style="list-style-type: none"> • weak representation of ACs in the central state • low institutionalization of budget policy making 	<ul style="list-style-type: none"> • conflict between the tiers of government • unequal fiscal treatment among subnational units 	<ul style="list-style-type: none"> • regionalism • favoritism

These institutional features particular to the Spanish federal arrangements exacerbated the latent regional ethnic cleavages, instead of accommodating them. On the fiscal front this is noticeable in the differentiated fiscal rights given to certain ACs. For example, the great level of discretion given by the central state to certain ACs (favoritism), namely the Basque Country and Navarra, in term of fiscal expenditure and tax assignment gave room to a continuous struggle for greater fiscal autonomy, which often coincided with claims for greater political autonomy (regionalism). The road for settling these struggles are not institutionalized creating disputes between the central state and the ACs over competencies (skepticism), and avenues for negotiations that are bilateral in nature (bilateralism). Each of these practices fostered through out the consolidation of democracy gave great leverage power to the regional political elites to demand greater fiscal decentralization.

4.1 Origins of Asymmetric Fiscal Federalism

According to Congleton et. al. (2003) the degree of asymmetry is determined by the starting point, when the central government and the subnational units reach a constitutional contract on how to share policy-making power. The origin of asymmetric fiscal relations in Spain is found on the very beginning of the transition period to democracy. The regional ethnic cleavages are the main cause of these asymmetries.

The transition period in Spain meant that the state would have to address the ever-lasting sensitive issue of national regionalism. As in any transition, the new rules of the game are difficult to be commonly agreed upon, especially considering that the new democratic regime would try to overcome the regional alienation enforced during Franco's authoritarian regime. Any consensus over the common rules was difficult to attain, requiring a series of pacts, the Mancloa Pacts of 1977 being the most emblematic one,

which preceded the approval of the Spanish Constitution¹⁷⁴.

The idea of ceding autonomy to the different regions ranked high in the political agenda of the transition. Just like any political issue in the transition period required the consensus which were formalized into pacts. In the transition period, the consensus was a key element on any issue in Spain (Linz, 1980; and Ruiz Gimenez, 1980) For the creation of the ACs it was not different, it relied on negotiations of between political leaders that agreed upon the *Concierto Autonómico*; an agreement which would be always open for negotiations. This inevitably led to imbalances, which are the source of the asymmetries in the evolution of the Spanish federal model:

Unequal, or asymmetric, assignments of political power to local governments are likely outcomes when it is recognized that negotiations over centralization often deal with one policy area at a time and are always open for renegotiation. In effect, there is a menu of centralization decisions that are negotiated between central and regional authorities, and revised from time to time as economic and political circumstances change (Congleton et. al., 2003: 169).

The political arrangement established with the creation of the ACs resembled the federal model, even though the Spanish Constitution never acknowledged the creation of a federal state. The guiding principle behind the development of this model has been the “*principio dispositivo*”, according to which the political territorial organization of the country should not be influenced from the center but instead from the will of each subnational unit. This guiding principle of power devolution in Spain contains potentials for asymmetries as it left to the free will of the ACs their ability to exercise their autonomy power (Fossas, 1999). The lack of clear guidelines to the question of how the devolution would take place in the long run made the process asymmetric, flexible, and without a clear end.

The potential of asymmetries, inherent in the “*principio dispositivo*”, is evidenced by the establishment of the different forms of attaining autonomy in the Constitution. The Constitution (Title VIII) sets the directions of devolution of power, establishing two distinct paths through which different regions could attain regional autonomy: the fast or broad track (Article 151) and the slow or narrow track (Article 143). The autonomy system gave authority to AC government to legislate over a specific list of matters (Articles 148 and 149).

Despite the specificity of these constitutional provisions there are gray areas as Paragraph 3 of Article 149 establishes that matters in which it is not clear the exclusive authority of either the AC or the central State each tier of government could claim its authority. This required the intervention of the Constitutional Court (*Tribunal Constitucional*) which through out the 1990s ruled over ACs discretion on spending, elimination of some ACs` taxes for overlapping reasons, and the redefinition of ACs` competence.

As a consequence of the asymmetries between the different ACs, the disputes between the ACs and the central State and the lack of a centralized budgetary authority within the central state gave birth to a complex system of bilateral and multilateral agreements to settle disputes concerning fiscal issues. The flexibility of the model made the devolution of authority very vulnerable to the party in power and to its majority in the lower chamber. In fact the period in which the decentralization gained momentum was in 1989, when the PSOE lost its parliamentary majority. This was a crucial moment for the decentralization as the regional nationalist parties became indispensable actors to guarantee the governance of the country. At this stage, devolution of power became a high political priority. As certain regional nationalist parties

¹⁷⁴ The Spanish transition to democracy is permeated with pacts underlining the need to bring together parties divided through political violence under a new broad political and social contract. The ideal of a pacted transition to democracy in well reflects in Pérez-Díaz's words: “[C]onstitutional contract, the regional contracts and the social contracts (as well as the related understandings with the army and the Church) make up a set of pacts that collectively form the basic social and political contract of democratic Spain. They incorporate both dimensions of a pact of association and a pact of government.” (Pérez-Díaz, 1990: 79)

increased their leading role in the national political arena, their bargaining power over political devolution also increased. Urgency was given to Catalonia, Basque Country and Galicia, who gained autonomy through the fast track.

The different fiscal regimes in Spain create three distinct forms of fiscal relationship between the ACs and the central State. Each regime is marked by the different degree of fiscal dependence on the central state. The main feature of the common regime is the limited taxation power of the ACs, and a high dependence on revenue share. Within the common regime there are two groups of ACs whose differ in terms of expenditure capability: the high track ACs are responsible for health and education, while the low track ACs depend on the central State on these areas. The foral regime, or concerted regime, greatly differs from the common regime in terms of unlimited taxation power given to the two ACs, the Basque Country and Navarra.

The common regime is characterized for limitations on taxation powers of the ACs. At the same time that the Spanish Constitution guarantees (Article 157.1) the resources that will be available in the hands of the ACs, it allows the central State to rely on special laws, organic laws (*ley orgánica*), to have an upper hand on the finances of the ACs. As the ACs attempted through their local parliaments to exercised their constitutionally granted autonomy power, in 1980 the central State enacted the Special Law for the Financing of the Autonomous Communities (*Ley Orgánica de Financiación de las Comunidades Autónomas* – LOFCA) to curb the ability of the communities to create their own taxes, consequently, increasing the ACs` reliance on central State`s transfers¹⁷⁵. In some communities more than or approximately fifty percent of their own raised revenues comes from these transfers¹⁷⁶. For five fast track ACs, Andalucía, Catalonia, Canary Islands, Galicia and Valencia, the total amount of regionally collected taxes was no more than 12 per cent of their total revenue as of 1987 (Solé-Vilanova, 1990).

One of the main distinctiveness of the regime is that the Basque Country and Navarra have full power in regulating and administering all taxes with the exception of the VAT, excise duties, and tax on the income of non-residents. This specific arrangement has lead to the establishment of the so-called *cupo*, which is the community`s annual payment for the services provided by the central state (security, external relations, transportation...). Even though this regime applies to the Basque Country and Navarra, they differ in terms of the durability of the *cupo* system. While in Navarra it has been established on a permanent basis, in the Basque Country it is negotiated every five years¹⁷⁷. The difference between both ACs is also noticeable in regards to the regulating tax authority: in the Basque Country, unlike in Navarra, the Community does not exercise this power, but instead the three different provinces.

The persistence of the fiscal asymmetries in Spain gave birth to a leapfrogging problem characterized by the constant attempt of the individual AC to attain more financial responsibilities and leverage provided that initially they started with a differentiated treatment. The constant race by the ACs for greater fiscal policy freedom is found on the differentiated path towards autonomy, which has proven to create regional competition rather than regional cooperation. This race for further fiscal autonomy is a function of the Spanish plurinational conflictive scenario¹⁷⁸.

4.2 Reforming the System

¹⁷⁵ Some authors, Castells (1988) and Ruiz Almendral (2003), have called attention to the fact that the prerogative to enact special laws limiting the taxation power of the ACs run against the right to autonomy.

¹⁷⁶ As of 1987 the following communities showed a great reliance on ceded taxes as demonstrated by the share of total regionally generated revenue: Baleares (56%), Madrid (53%), Aragon (46%), Murcia (44%), Asturias (43%) and La Rioja (41%) (Vinuela, 2000).

¹⁷⁷ The Joint Committee on the Economic Agreement renegotiate the renewal of the *cupo* system for the Basque Country every five years. The Committee has twelve members: three representing each province, three from the Basque government, and six others from the central Spanish government.

¹⁷⁸ As suggested in Congleton et. al. (2003) the “where local governments have extensive authority to make local fiscal decisions, the extent of local governance often varies among regions because of differences in local political equilibria” (Congleton et. al, 2003:170).

In terms of expenditure the ACs have gained considerable autonomy since their creation. The most debatable fiscal issue on autonomic matters has been the financing of the ACs, as the ultimate goal in the reforms have been to make the ACs responsible for their own financing. The ACs have two main sources of financing: tax revenues and grants from the central government and the EU¹⁷⁹. In the 1990's the main question became whether the ACs should be responsible for their own financing. Following the rational of Oates' decentralization theory¹⁸⁰ the subnational units should move towards gaining greater responsibility for their own resources.

The Spanish model moved was reformed twice, in 1997 and in 2001, giving continuity to the fiscal decentralization process with strong emphasis on increasing ACs tax revenues and reshaping the structure of the central state grants to the ACs. The main aspect of both reforms has been to increase the share of ACs' participation on the so called "ceded tax", which is the tax raised by the ACs and whose yield is shared between the ACs and the central state. Some of these taxes were entirely owned by the state but administered by the ACs. Before 1997, the ACs would receive a "bonus" for this type of tax when the yield collected by the AC exceeded the expected amount. This "bonus" worked as an incentive for the ACs, which had no decision power over these taxes.

The reforms have been discussed in the Mixed Commissions at the Council (FTPC) usually with strong parallel bilateral negotiations carried out among the ACs. The weight of these ACs parallel negotiations has been specially felt on issues related to allocation of resources, an important matter of the reforms. The bilateralism around which the reforms have been based contributed to the regional bargaining for which only gives continuity to the asymmetries in the Spanish fiscal federalist model. Despite the persistence of asymmetries, the reforms deepened the fiscal decentralization and attempted to give homogeneity to the common regime.

In 1997, what was before considered as a transfer from the central state, assumed in practice the status of a tax sharing as the ACs acquired the power to regulate important aspects of the "ceded tax" (tax brackets, tax rates and tax credits). For some ceded taxes the ACs retained a hundred per cent of the shares (e.g. wealth tax, death and gift taxes, taxes on transfers and official documents, gambling tax). Some ACs abdicated their power to regulate ceded taxes¹⁸¹. For the ones that have chosen to exercise such authority they must pass legislation in the AC parliament replacing the central state regulation. Before the reform, only the foral regime ACs could pass any legislation regulating taxes.

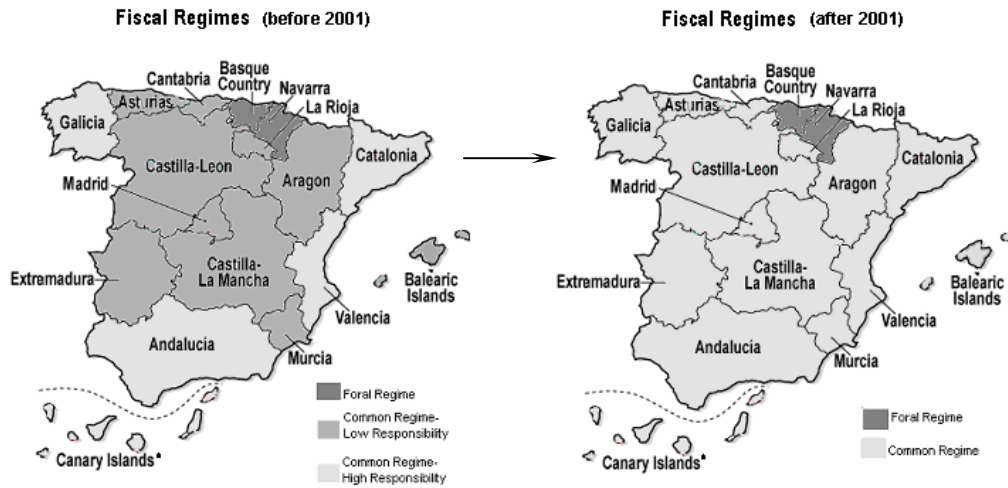
The 2001 reforms represent a turning point in the model of fiscal federalism in Spain as it clearly is guided by two principles: stability and generalization (Monasterio, 2001). The introduction of stability to the system means leaving behind the complexity of five year negotiations over transfers and other taxation matters with ACs belonging to the common regime. The move towards generalization represents the harmonization of the common regime with the disappearance of the formal differences between high and low track ACs (See Figure II). With this reform the central state increased the regulatory authority of the ACs over some ceded taxes, increasing also the share of the tax yield to be received by the ACs. An important change was the freedom granted to the ACs to determine the tax level of some of the ceded taxes. Another important change that indicates the attempt to minimize the asymmetries in the system has been the granting of competencies to the low track ACs of the common regime, which from 2002 onwards were fully responsible for the financing of health.

¹⁷⁹ The tax revenues as of 1999 represented 25,90 percent of the total autonomous resources, where 4.02 percent comes from the ACs' own taxes and fees, 10.50 percent from the "ceded taxes", and 11,38 percent from personal income tax sharing arrangement. Central government grants accounted for 63.44 percent of the total AC financing, where unconditional grants represented 21.50 percent, health and social service grants 36.10 percent, and interterritorial compensation funds 1,55 percent. EU funds amounted to 8,60 percent. (Castells, 2000)

¹⁸⁰ Oates holds that "each public service should be provided by the jurisdiction having control over the minimum geographical area that would internalize benefits and costs of such provision" (Oates, 1972: 55)

¹⁸¹ Three ACs were not responsible for the collection of the income tax, IRPF, which represent an important share of the ACs' revenues. These ACs were: Andalucía, Extremadura and Castilla-La Mancha.

Figure II: Harmonization of the Fiscal Regimes in Spain



* The Canary Islands are under a special regime due to their insular geographic position. The most distinguished feature of such regime is the non existence of the IVA.

Source: own elaboration

5. Final Remarks

In this paper, the federal-like, asymmetric, and highly negotiable process of decentralization in Spain can be largely explained by the role of the political elites in this process. Despite the simplifications and generalizations regarding the analyses of the roles of the elites on the decentralization two general remarks can be made about the Spanish case:

- (1) the regional political elites can be considered as an important factor in the fiscal decentralization as under democracy they become pivotal actors in the intergovernmental relationships between the center and the regions; and
- (2) the main features and trends of the fiscal decentralization processes (i.e. asymmetric,) are a reflection of the different regional political elite's strategies to gain autonomy vis-à-vis the central state;

Given these remarks, they represent an incipient attempt to understand the role of regional political elites on the fiscal dimension. Under a democratic regime, decentralizing with the regional political elites presupposes the creation of shared strategies through intergovernmental network between central and regional governments. As such, the "political elite factor" deserves a greater attention in the "second generation" literature of fiscal federalism as it highlights the effect of the political leadership on fiscal regimes.

All in all, the attempt to bring together one important theme in the field of welfare economics — fiscal decentralization— and interpret it in connection with a central theme in the field of sociology —the elites— is motivated by an interest to explore different facets of the decentralization processes. In this regard, this paper makes a small contribution to better understanding the influence of regional political elites on decentralization.

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